

Message Text

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53

ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-15 CIAE-00 COME-00 FRB-02 INR-10

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 PC-04 ABF-01

FS-01 DRC-01 /170 W

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P 091644Z NOV 73

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC PRIORITY 1737

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PASS: U.S. TREASURY

E.O. 11652: GDS

TAGS: EFIN, VE, AFIN

SUBJ: REVALUATION OF BOLIVAR LIKELY

REF: CARACAS 9271

1. PROBABILITY OF REVALUATION OF BOLIVAR HAS INCREASED CONSIDERABLY. WHILE REFTEL LISTED REVALUATION AS ONE POSSIBLE MOVE WHICH COPEI ADMINISTRATION COULD TAKE IN ORDER TO INFLUENCE ELECTION, INCREASE IN PETROLEUM TAX REFERENCE VALUES COMBINED WITH LATEST STATISTICS ON INCREASING COST OF LIVING CAUSES EMBASSY TO EXPECT REVALUATION OF BOLIVAR TO BE ANNOUNCED SHORTLY, POSSIBLY AS EARLY AS THIS WEEKEND.

2. EMBASSY INFORMED THAT REVALUATION HAS BEEN PUSHED FOR SEVERAL WEEKS BY SO-CALLED ECONOMIC EXPERTS WITHIN COPEI BUT SUCH MEASURE HAD BEEN RESISTED BY TECHNOCRATS IN CENTRAL BANK, MINISTRY OF FINANCE AND CORDIPLAN ON GROUNDS THAT REVALUATION WOULD MAKE VENEZUELAN NON-TRADITIONAL EXPORTS NON-COMPETITIVE AT TIME ECONOMY POLICY IS TO SHIFT FROM IMPORT SUBSTITUTION TO EXPORT PROMOTION, ESPECIALLY IN

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LIGHT OF VENEZUELA'S ENTRY INTO ANDEAN PACT. NEVERTHELESS WITH

RECENT POLL CLAIMING AD PARTY IN LEAD POLITICAL IMPETUS FOR
REVALUATION IS BECOMING OVERWHELMING.

3. AS REPORTED IN EMBASSY'S ECONOMIC TRENDS REPORT FOR AUGUST (A-370), TERMINATION OF RELATIVE PRICE STABILITY (REFLECTED IN BASIC COST OF LIVING COMMODITIES) HAS BEEN PRIMARY NEGATIVE FACTOR ECONOMY. BY REVALUING BOLIVAR GOVERNMENT CAN CLAIM THAT IT IS NOT ONLY EVIDENCE OF STRENGTH OF ECONOMY IN INTERNATIONAL TERMS, BUT MORE IMPORTANTLY A DECISIVE STEP TO FIGHT INFLATION. WHILE REVALUATION MAY SEEM SOMEWHAT ESOTERIC TO MAN IN THE STREET, GOVERNMENT PROBABLY WOULD TRY TO CAPITALIZE ON IT IN POLITICAL TERMS BY POSTING AVERAGE COST OF IMPORTED ITEMS (WHICH CONSTITUTE SIGNIFICANT PROPORTION OF VENEZUELAN MARKET BASKET) BEFORE AND AFTER REVALUATION.

4. ALTHOUGH GOVERNMENT HAS BEEN CLAIMING THAT IT HAS MAINTAINED RELATIVE PRICE STABILITY ESPECIALLY THROUGH DIRECT SUBSIDIES FOR AGRICULTURAL IMPORTS, STATISTICS RELEASED BY CENTRAL BANK YESTERDAY SHOULD REMOVE ANY DOUBT THAT INFLATION HAS INDEED BECOME A PROBLEM HERE. DURING FIRST SEVEN MONTHS OF 1973 ALONE, GENERAL PRICE INDEX INCREASED 5.0 PERCENT OR AT ANNUAL RATE OF 8.5 PERCENT. AGRICULTURAL PRODUCTS HAVE INCREASED 15.0 PERCENT THROUGH JULY OR AT ANNUAL RATE OF 25.7 PERCENT.

5. GENERAL CONSENSUS OF EMBASSY CONTACTS PRIMARILY IN PRIVATE SECTOR IS, REVALUATION - IF IT TAKES PLACE - WILL BE APPROXIMATELY 10 PERCENT, E.E., ABOUT BS. 4 - \$1.00. IF DUAL RATE IS MAINTAINED, PETROLEUM EXPORT RATE IS EXPECTED TO BE BS. 3.90 - \$1.00. ON OTHER HAND, WITH SUCH LARGE REVALUATION GOVERNMENT MAY SETTLE ON UNIFIED RATE OF BS. 4 -\$1.00.

6. OTHER INDICATIONS WHICH SUPPORT REVALUATION THESIS IS THAT ALFREDO GOMEZ MACHADO, PRESIDENT OF BANCO MERCANTILE Y AGRICOLA (CHASE MANHATTAN) AND FORMER PRESIDENT OF CENTRAL BANK TOLD PRESS WEEK AGO THAT INCREASED PETROLEUM REVENUE WOULD LEAD TO REVALUATION. MORE SPECIFIC REPORT ON GOVERNMENT'S INTENTION ATTRIBUTED CONFIDENTIALLY TO CENTRAL BANK ADVISOR, WHO SAID SOME LARGE FIRMS ALREADY HAVE RETURNED TO VENEZUELA SIGNIFICANT AMOUNTS OF MONEY EITHER IN ANTICIPATION OF OR A HEDGE AGAINST REVALUATION OF BOLIVAR.

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7. IN LIGHT OF ABOVE, EMBASSY REQUESTS WASHINGTON ADVICE RE PURCHASE OF BOLIVARES FOR ITS OWN ACCOUNTS.
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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ELECTION CANDIDATES, NATIONAL ELECTIONS, REVALUATIONS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 09 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973CARACA09556
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731145/aaaabgrj.tel
Line Count: 110
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: CARACAS 9271
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 31 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <31-Jan-2002 by boyleja>; APPROVED <14 FEB 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REVALUATION OF BOLIVAR LIKELY
TAGS: EFIN, AFIN, VE
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005